Q: I am in my mid-20s, I work in the service industry and have recently started investing in equity markets. Like most DIY investors, I picked up investment recommendations from websites and online videos. Today, I have invested in 25 schemes across 7-8 different categories in equity and debt within the first 6 months of investing. I now feel overwhelmed with the amount of research and time I have to give to these schemes, and suddenly investing doesn't feel so simple after all. What should I do?

*-Prashant*

*(Answered by Tarun Birani, founder and CEO TBNG, Capital Advisors).*

**Tarun Birani : Ideally, an investor must add additional funds to his portfolio only if it fulfils the following purposes:**

i. It caters to his financial goals along with suitability, which includes analysis of his risk tolerance
ii. It gives his portfolio exposure to sectors and stocks that the existing fund doesn't have
iii. It offers 'meaningful' diversification to his portfolio by reducing overall correlation

Any other reason beyond these will result in cluttering his portfolio. Every scheme already invests in an average of 40-50 stocks. Suppose within a category, 3-4 funds are picked, which have exposure to the same stocks. In that case, this ends up creating naïve diversification and, with the same amount of risk exposure, had he been investing solely in 1 or 2 funds in that category.

The ideal solution for a DIY investor with an assumed aggressive risk profile (70 Equity: 30 Debt) would be to keep his overall portfolio within 6-8 funds. Within equity, he could look at having a core and satellite approach, where the core is invested into funds investing into large & mid-cap companies, domestic and global. For the satellite portion of his portfolio, he could look at small-cap funds along with any sectoral bet that could probably create that additional alpha in that portfolio.

The critical point is that he must also take care of the fund house and fund concentration risk by not investing more than a pre-defined percentage in any funds or fund houses.

**For the debt portion, he could look at investing across 3 categories in one fund each. These must include:**
~A portion for fund parking purposes
~A portion for improving the debt yields by investing in a fund that has a maturity of 1-4 years
~The final but smaller portion could be invested in the longer end of the yield curve. For example, 5 plus years of maturity, to improve the overall yield profile of the debt portfolio.

A 6-8 fund lean portfolio would create a much more focussed approach and this could lead to much better risk-adjusted returns in the future.